The Egyptian Exchange (EGX) Experience with Corporate Governance & Sustainability

1) Disclosure & Corporate Governance

EGX Listing Rules

EGX has always been supportive to any initiative that enhances the level of transparency and corporate governance in the market place.

EGX listing rules are continuously being reviewed to ensure that the Exchange retains and solicits good quality issuers and to ensure more transparency and governance in the market.

In February 2014, a new set of EGX Listing rules were introduced, aiming at facilitating the procedures of new offering for companies as well as improving market transparency and minority protection rights. The new rules addressed, among other things, the capital increases resulting from mergers, the necessary disclosure regarding the use of proceeds of the capital increase, the board of directors' independence as well as the related party transactions.

Further amendments and additions were integrated in the Listing rules during the years 2015 and 2016 to ensure a wider application of corporate governance and more investors' protection. Rules pertaining to the treasury shares, the sale of 50% of the company's assets related to its main activities as well as the cross holding ownership were incorporated in the latest review.

The Listing Rules are a key directive to be abided by with regards to governance. EGX effective enforcement against governance breaches has greatly improved the quality of governance practices of Egyptian listed companies.

Egypt Code of Corporate Governance

In 2016, EFSA issued an updated version of Egypt's code for corporate governance, which provides comprehensive guidelines on the disclosure of financial and non-financial information and gives a special emphasis on the role of the BoD and its committees as well as the regulatory framework and the companies' codes and policies that should be in place to ensure a proper implementation of corporate governance best practices.

The code recommends companies to comply with its recommendations and in case of non-compliance, to clearly explain the reasons why certain recommendations have not been complied with (comply or explain approach).
2) **Sustainability**

Global financial markets are currently witnessing tremendous changes to build more sustainable markets to help achieve the United Nations’ Sustainable Development Goals (SDGs). This in turn has led the Egyptian exchange to take pioneering steps on the sustainability front.

Exchanges promoting greater transparency of high-quality ESG information are actually developing well-functioning markets, which are more resilient and less volatile. They contribute to stronger, more transparent listed companies and create more attractive markets where investors can better evaluate fundamental drivers of value creation and would know how the company will likely perform in the future. They also assist companies in differentiating themselves on ESG matters, which is quickly becoming a competitive imperative.

From another perspective, the benefits of ESG and integrated reporting, which expand the scope of financial results and integrate non-financial information about intangible factors related to the environment, social and governance issues, are numerous to listed companies as well. These include improving access to capital and global financial markets, lowering risks and cost of doing business, increasing company’s valuation and delivering better return to shareholders, enhancing corporate reputation as well improving employee perception of the company, helping attract, retain, motivate and align new and existing employees. In short, integrated reporting provides a more profound and holistic view about the company, enhances its strategy and unlock the company's competitive advantage

**EGX Sustainability Initiatives**

**EGX Member of the United Nations' Sustainable Stock Exchanges initiative (SSE)**

The Egyptian Exchange (EGX) started the journey of sustainability back in 2009 and was one of four pioneer exchanges that joined the United Nations' Sustainable Stock Exchanges initiative (SSE) in 2009 (first SSE dialogue in New York). The aim of the initiative, founded by the UN Secretary-General is to increase exchange-listed companies' transparency and commitment to environmental, social and corporate governance issues. SSE initiative offers a unique platform for multi-stakeholder learning and exchanges have an opportunity to take a leading role in creating a more sustainable and inclusive economy.
S&P EGX ESG index

EGX launched its S&P EGX ESG index in March 2010; the first & only ESG index in the Middle East and North Africa Region designed to track the performance of companies listed on EGX that demonstrate leadership in environmental, social and corporate governance (ESG) issues.

EGX Elected Vice Chairman of the World Federation of Exchanges (WFE) Sustainability Working Group

Following a number of sustainability initiatives and the active participation of the Exchange, EGX was elected as a Vice Chairman of the World Federation of Exchanges (WFE) Sustainability Working Group in 2014. Our mandate as a stock exchange was not only limited to promoting sustainability within EGX but also to spread the awareness about sustainability to listed companies and other stakeholders and encourage them to adopt sustainable practices into their businesses.

Sustainability part of EGX Strategy

Sustainability has now become part of EGX Strategy. We noted more than once that community aspect has become a key determinant in all decisions of the stock market. We have integrated ESG in the decision making of EGX. We believe that this would make the economy more efficient, more sustainable and more globally competitive.

Year 2016 can actually be considered as the year of sustainability for EGX, where it joined the United Nations Global Compact (UNGC) and signed the Women’s Empowerment Principles (WEPs).

Sustainability Advisory Committee

EGX formed a Sustainability Advisory Committee, with the majority coming from market participants, whose main goal is to issue a Model Guidance for the sustainability report for listed companies, as well as setting the criteria for green finance.

EGX Model Guidance for Reporting on ESG Performance and SDGs

During the year 2016, EGX has issued the first Model Guidance for reporting on ESG for listed companies “EGX Model Guidance for Reporting on ESG Performance and SDGs” and has organized a number of workshops to introduce the concept of sustainability, its importance and the main components of the sustainability reporting.

The guidance came into three sections; the first section gave an introduction and the importance of ESG reporting. Section two shed the light on the responsibility and the
role of board of directors in incorporating sustainability into corporate values and strategies, pushing in sustainability activities into day-today business activities. Section three presents the recommended steps for preparing an effective ESG information report according to SSE model guidance on ESG reporting and internationally accepted reporting frameworks. These include: 1. Enabling Sustainability in the company 2. Engaging Board of Directors 3. Engaging the Stakeholders. 4. Identifying the Issues (and assessing performance). 5. Identifying Issues by Sector/Industry. 6. Identifying Material Issues. 7. Disclosing and Reporting Relevant Performance Indicators.

Finally, the report gave a list of appendixes including, the Sustainable Development Goals, Recommended KPIs for ESG Disclosure, and Principles/Initiatives Issuers Need to Consider for Their Business Operations.

**Other sustainability initiatives**

Moreover, EGX has also signed the United Nations' initiative for Global Investor Statement on Climate Change as well as the Marrakech Pledge for fostering Green Capital Markets in Africa. The Exchange has also joined the “Green Finance Advisory Group”, established by Sustainable Stock Exchanges (SSE) initiative, which came within the exchange's commitment to promote sustainability.

EGX was also keen to have the employees and other stakeholders engaged in its regular sustainability initiatives such as the International Women’s Day, the Orphans’ Day and the World Autism Awareness Day.

**EGX Sustainability Foundation**

Another equally important initiative launched by EGX to further support sustainability concepts in the Egyptian market was the establishment of EGX Sustainability Foundation to serve the Egyptian society by unifying efforts of all market participants in social activities.

**EGX First Sustainability Report**

EGX, in collaboration with its Sustainability Advisory Committee, introduced its first report on ESG performance in accordance with the GRI-G4 guidelines. The report mainly focused on two key pillars: energy efficiency measures and gender equality. It basically sheds the light on how the EGX worked on reducing environmental impact ensued from our day-to-day operations, through the rationalization of natural resources consumption in all premises, including energy, paper and water. This in addition to setting mechanisms to reduce waste generation and emissions. It also highlights EGX approach to offer equal opportunities to everyone, following the principles of “right person in the right job”, “equal pay for equal work” and “merit-based rewards.”
EGX Sustainability report represents an important step towards raising awareness of the importance of sustainability reporting in the Egyptian capital market and comes within our belief in the importance of advocating sustainability through “leading by example”, encouraging all stakeholders, especially listed companies, to prepare their sustainability reports.

**EGX encourages listing of prospective companies in eco-industries**

As a great believer of sustainable development that meets the needs of the present without compromising the ability of future generations to meet their own needs, EGX is committed to support any sustainable business in Egypt that would adopt more environmentally friendly and energy efficient solutions, to ensure prosperity for future generations.

EGX will thus facilitate the listing process for any prospective companies in eco-industries such as renewable energy, waste recycling, transport etc. EGX diverse platform provides finance for eco-industries via IPOs; bond or sukuks financing; or specialized infrastructure funds.